

ENVIRONMENTAL GOVERNANCE: QUESTIONS FOR DIRECTORS*

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Corporate organisations and their stakeholders face multiple environment and environment-related challenges and opportunities. The effects of climate change will impact directly upon people everywhere, although some may face issues such as food and water security, flooding and coastal erosion or bio-diversity before others. Certain challenges represent huge business opportunities ranging from clean and low-carbon technologies and sustainable and renewable energy to geo-engineering and new investment vehicles. There will be growing demands for related services.

Directors have a key role to play in understanding the likely impacts of changes, assessing both challenges and opportunities, discussing issues and determining responses, and ensuring that future growth is beneficial, inclusive and sustainable. Decisions taken in boardrooms can have positive and/or negative impacts upon the physical and social environments. The stakes are high. Effective corporate governance arrangements and responsible judgements increase the prospect of beneficial outcomes and a reliance upon market mechanisms with their advantages (Friedman, 1962).

The consequences of a lack of awareness, inadequate understanding and inappropriate responses could also be significant. A failure to see the bigger picture, a reluctance to grasp strategic opportunities and a mistaken focus upon narrow and short-term aims could lead to a loss of faith in markets and tighter and more restrictive regulation that might inhibit beneficial innovation. So what are the questions that directors and boards should be addressing?

ENVIRONMENT GOVERNANCE

Lets start with governance considerations. Will our existing mechanisms be able to cope with the speed and scale of adjustment required, or will radical change, transformational leadership and new forms of environment governance be required? What leadership should boards provide? What should the agenda be and who should be consulted and involved? How do we ensure informed debates and integrated responses? Are all those who need to be approached aware of environmental impacts, challenges and opportunities in their areas? Is our ignorance causing harm (Carson, 1962)?

Do we take the initiative and act alone or further reflect and seek allies? Should we engage directly with environment related initiatives where our corporate capabilities are relevant and collaborate with other organisations in the search for market solutions? Are our environment policies and responses consistent with our activities in other areas such as business development and corporate social responsibility? Are they fully integrated into our business model?

What are the views, aspirations and preferences of our stakeholders in relation to environmental issues, challenges and opportunities? Are we communicating with them and engaging with them? Is there mutual understanding and respect? How are we accounting for our performance in this arena? How do and should we report our concerns, activities and achievements? If we have not done so already, should we consider the adoption of integrated accounting?

Do our governance arrangements ensure we achieve the right balance between the various areas that require attention and between immediate pressures and longer-term concerns. For example, in relation to

individual, collective and public policy action are we focused upon issues that are in the spotlight such as climate change and overlooking other areas such as the loss of biodiversity and species which is happening at a rapid rate and may demand prompt action (Hilton, 2015).

STRENGTHENING MARKETS

Will market-based solutions be enough? If Government intervention is required, what form should this take? Are we tracking regulatory developments and compliant with them? How can we best endeavour to ensure that any future regulations are effective, easy to implement and proportionate, and that they address priority issues rather than pander to vested interests? What are market trends and developments and the tone and topics of public debates telling us about the concerns of others?

How might we best use existing market mechanisms to address environmental issues, challenges and opportunities? Are there new mechanisms that would strengthen them and improve market responses? For example, carbon trading has been championed, but are there other areas in which a price could be charged for pollution and organisations allowed to buy and sell the right to pollute (Hahn, 1984; Tybout, 1972)? Are there barriers to entry and other obstacles in the path of market based responses that require attention?

Have we identified the various parties involved in delivering what we are seeking? Effective market responses can require action at a number of levels. For example, the rapid and widespread adoption of vehicles powered by electricity, hydrogen or bio-fuels depends upon the extent to which the activities of relevant parties are consistent and synchronised. New vehicles will need to be licensed and tested and enough refuelling points provided to make their ownership viable for early adopters.

Encouraging desired behaviour without distorting market responses is a challenge, as is the question of what represents "desired behaviour". The poor, eager to catch up, may have a different view from those who are better off. There are difficult judgements to make, such as how long it may take and at what level of subsidy for the cost of renewable energy to be competitive with that of fossil fuels. There are also lobbyists and propagandists of different persuasions seeking to influence our choices. With pantomime villains to distinguish from real ones balanced views are required. For example, while fossil fuels are much maligned has their use prevented some deforestation (Epstein, 2014)?

MONITORING DEVELOPMENTS

Effective directors are aware of what is happening in the business and market environment. Is your board monitoring external trends and developments relating to environment management issues, policies and plans? For example, what will the implications of the Made in India initiative be for locations in which your company operates? Would additional manufacturing activity put pressure upon water and other supplies, or your ability to attract skilled labour at an affordable price?

Have we prioritised the issues that most impact upon us and identified potential crisis areas? When assessing impacts do we take objective and independent advice? How do we gain access to the specialist and technical expertise to help us to understand enough of the science involved to assess the significance of developments and their consequences? Are we aware of our environmental footprint and the full implications of our own activities (Carson, 1962)?

Is the board fully aware of the company's own impacts upon the environment and the externalities and social costs of these activities along the lines initially raised by R H Coase (1960)? Companies that do not internalise significant external and social costs and take effective steps to reduce them are those which are most at risk of intervention by Government and regulatory authorities.

Companies needs to identify and track significant developments, assess their implications and impacts and determine what needs to be done in response at local, business unit and group level. Responses could be reactive or proactive. In some cases they could involve various departments and collaboration with other and complementary organisations that have shared interests and concerns. Reading the road ahead and thinking about consequences should come naturally to a director. Should a proactive response include lobbying to influence public decision making?

SECURING AN INTEGRATED RESPONSE

In relation to global developments such as climate change and immediate issues such as emissions, hazards and threats of shortages of resources, are environmental risks being identified and assessed? Are mitigating actions and assurance mechanisms in place? Do we have robust and integrated policies, processes and systems for ensuring effective environmental and risk management? In relation to our business model, can we access affordable energy and other required resources?

Boards need to ensure that stakeholders whose activities are impacted by environmental issues participate in decisions relating to environmental policy. The interests of some functions are more obvious than others. Thus emissions from a manufacturing unit can have a tangible and measurable impact upon the environment, while the consequences for an HR team concerned with health and safety of environmental pollution might be more difficult to assess.

Some environmental arenas can appear more distant than others. Urban issues may be evident from the polluted air that directors breathe while in traffic jams en route to board meetings. Are rural and food issues and more remote areas and operations where individual and corporate effort could have a significant impact being overlooked? (Cornell et al, 2014). Are the related concerns of rural communities being addressed by our strategy and responses?

Are you sure that all those who need to be involved in environment related decision making have an appropriate voice? Have interests been missed? Are minority views being overlooked or ignored, or are they being taken account of in integrated responses? Is there enough challenge and debate and a sufficiently inclusive process to avoid "groupthink" (Janis, 1972)? Are people encouraged to raise concerns and protected if they do so?

COOPERATION AND COLLABORATION

Because environmental changes and developments can impact upon a variety of organisations in a particular locality they can create fertile ground for collaboration. Some boards are primarily reactive and defensive. They cooperate when they feel they are being adversely affected or have interests to defend. Is your board missing opportunities to collaborate for positive reasons? Should you be more proactive in pursuing opportunities that require the complementary qualities that working with others can assemble, or the critical mass that it can create (Coulson-Thomas, 2014)?

Are we taking a sufficiently long-term and strategic view of environment issues, challenges and opportunities? Do we accept the social responsibility of business and believe that we have obligations to future generations of stakeholders (Bowen, 1953)? If so, how do we weigh them? Can we cope with the challenges and address the opportunities with our current capabilities, collaborative partners and existing legal and regulatory requirements? What changes are required? Where, when and to whom should we communicate our suggestions for reform?

Should we lobby or otherwise put our case at local, regional, national and/or international level? Who are the key decision makers and what are the most important forums for discussing the matters that most concern us? How can we best reach and influence them? Where and when will the most important meetings be held? Are the agendas public? How do we monitor proceedings? Who could help us to assess what emerges and its implications for our strategy and operations?

Because Government action can be a blunt instrument that imposes costs upon all players it may pay a company to be vigilant in trying to draw attention to the failings of competitors and importers that do not meet its own environmental standards and reduce any negative impacts of its sector. Are there alternatives to regulation such as incentives that Governments could use - either themselves or in collaboration with business - to change behaviours (Thaler and Sunstein, 2008)?

ENVIRONMENT CITIES

Cities can have a significant environmental impact (Newman, 2006). In India and elsewhere there is greater focus upon establishing smart cities. As a consequence, will there be less emphasis upon creating more environment cities? Will rural areas fall in priority? Alternatively, will increased networking and improved infrastructure provide new opportunities for quicker responses to environment issues and collective action to address them? A systems and joined up approach could allow more city wide responses to issues that arise.

For example, a real time system could provide public information, re-route public transport and delay mass departures and journeys to reduce the impact of a serious traffic jam created by an accident.

The internet and social media enable small businesses and individuals to participate in and influence wider debates. Directors who doubt their ability to sway national and international decisions may find their voices carrying greater weight at local and municipal level. Access to politicians and officials may be easier and attendance at relevant meetings more affordable. Is there a local cluster of like-minded business leaders with shared interests? Does municipal environmental policy match the requirements of corporate strategy? Does it enable sustainable local development?

Are current arrangements to provide water, power, transportation and other services to your manufacturing, warehousing, office and/or retail locations sustainable? Does your city have an integrated and sustainable development plan covering areas such as education, housing, energy, transportation and the environment? What are the implications of this for current and future operations, customers and employees? What can you do to address any gaps?

ENVIRONMENT MANAGEMENT AND BEHAVIOUR

Some environments remind us of our place within a hierarchy, while others are less constricting. Many corporate headquarters are office blocks in which people are piled on top of each other in rooms with windows looking out and away from each other. A central core of lifts, stairs and other support services further inhibits interaction. How are your corporate spaces, facilities and furnishings influencing behaviour? Are they energy efficient? What needs to change?

In many UK cities post-war housing development replaced Victorian housing with glass and concrete tower blocks. They destroyed the intimacy and interaction that occurred when neighbours used to meet each other and talk and play outside their front doors. In comparison, the limited social spaces in graffiti laden entrances to lifts and stair wells seem forbidding and unsafe. British Airways recognised the value of interaction, networking and chance meetings when designing its corporate headquarters with its meandering atrium streets, social spaces and coffee bars.

Have environmental debates become too technical? Are they overly hard and scientific? Are we paying sufficient attention to softer issues such as environmental impacts upon behaviour? Our disposition and behaviour can be heavily influenced by our work, social and built environment. How can we introduce a greater degree of freedom into how, when, where and with whom we work so that working environments can better reflect the nature of the work being undertaken and the preferences of the people involved (Coulson-Thomas, 1997).

CREATIVE ENVIRONMENTS AND INNOVATION

A key consideration for many boards is the extent to which work, corporate and local environments are conducive of innovation and creativity. Some environments are oppressive and depressing, while others are more uplifting and inspiring. One can specifically create an environment that encourages flexibility, dynamism and change, for example working and learning spaces and supporting technology that can be reconfigured for different purposes.

Do your working and learning environments and related arrangements inspire and enable the innovative thinking and developments required to address environmental issues, challenges and opportunities? Are your support arrangements, processes and tools conducive of responsible innovation while at the same time ensuring compliance (Coulson-Thomas, 2012a & b, 2013)? Do they and your business and funding models allow alternatives to be explored? What incentives would encourage the development and trial of more sustainable options?

There may be barriers to innovation to address. Entry costs to some new renewable energy technologies can be high and it may take time to move far enough along a learning curve to be competitive with conventional alternatives. In a field such as coastal erosion getting access to trial opportunities can be complex and may involve a number of parties. How does one fund developments in these areas and prepare for the future while remaining competitive?

When creativity and other issues are brought into the environment management domain discussions on what

to do can sometimes be protracted. A succession of business leaders from Sir John Harvey -Jones (1988) to Jack Welch (2005) have stressed the need to speed up progression to the implementation stage. New governance and management aims to correct the imbalance between the formulation of environment related and other strategies and their implementation (Coulson-Thomas, 2012a & b, 2013).

AESTHETIC AND SUPPORTIVE ENVIRONMENTS

In our environmental management discussions and planning, while focusing upon the avoidance of negatives such as pollution are we devoting sufficient attention to areas where we could make a more positive contribution to improving the quality of life? How could we use our budgets for buildings, facilities, fixtures and fittings to create safer and more flexible and enjoyable working environments that can accommodate a wider range of changing needs? Do we understand the advantages of new leadership which shifts the emphasis from traditional top-down motivation and command and control to the provision of the help and support that enables people to excel at difficult tasks and innovate (Coulson-Thomas, 2007, 2012 a & b, 2013, 2015b).

Aesthetic considerations range from the briefs that are given to designers and architects to creating opportunities for people to participate. Most urban and many industrial environments could be greatly improved by individual and collective initiative, whether modest such as the sponsored planting of a roundabout or more strategic such as an integrated redevelopment plan. There are options to suit a range of budgets, but dealing with hazardous waste and contaminated land can require determination and significant effort.

UK examples, range from the aesthetic improvement of largely derelict and abandoned streets to encourage people to take pride in their immediate environment to volunteer groups meeting to clear up rubbish and cut and replant verges. One street to which residents are returning has been enhanced to the extent of being recognised as art and being nominated for the annual Turner Prize. Along the River Thames there are communities of house boats where floating gardens have been created with potted trees and shrubs on certain barges for the benefit of the community.

Some economies and social cohesion appear overly dependent upon continuing growth and development? Yet our finite planet may only be able to support so much of certain forms of growth (Higgs, 2014). How can and should directors challenge entrenched assumptions? Are there different and more sustainable models of growth and corporate policies and practices that would simplify and enhance our lives while protecting and improving physical and aesthetic environments?

INCLUSIVE ENVIRONMENTS

Another issue is the extent to which environments are inclusive or whether certain groups are excluded. For example, how accessible and safe are our corporate, urban and other environments to the partially sighted, or those who cannot hear a machine or approaching car? At one extreme, lepers are physically ejected and driven away from some communities, but there are also many other groups who can find involvement and participation to be a challenge. Are we prepared to work with others to assemble the critical mass to address such issues (Coulson-Thomas, 2015a).

Are disability and related participation issues properly addressed in our environment management and planning discussions? Directors need to ensure that at a minimum a company meets its obligations under the law, for example in relation to disabled access if it is operating in certain countries. A more ambitious and proactive approach is required to ensure the full participation of certain groups. There are many social as well as commercial and public policy issues for environment specialists, opinion formers and business leaders to discuss at next month's congress.

In a democracy, if growth and development are not perceived as sustainable, mutually beneficial to stakeholders, fair and inclusive, businesses and the market itself may face much greater questioning and challenge. The benefits of greater Government intervention could be problematic given skill, experience and other barriers to the effective implementation of public policy (Cabinet Office, 2015). In contrast, innovative, responsible and sustainable responses could lead to less intervention, greater reliance upon market mechanisms and closer and more productive public-private collaboration as each better understands and appreciates the contribution of the other.

FURTHER INFORMATION

Transforming Knowledge Management, Talent Management 2 and *Transforming Public Services* by Colin Coulson-Thomas which summarise the findings of a five-year investigation into the most cost-effective route to high performance organisations are published by Policy Publications and can be obtained from www.policypublications.com

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